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European Communist Countries' Hard Currency Debt

The European Communist countries\* incurred hard currency deficits in 1975 of about \$12 billion as imports soared and exports to recession-hit Western countries slumped. As a result, total hard currency debt rose by more than 40% to about \$35 billion. Although a substantial volume of government-backed credits were used, Communist borrowers were forced to rely heavily on private banking sources to deal with their deficits and debt service -- about \$9 billion was borrowed on the Eurocurrency market. At yearend 1975 Eurocurrency debt was roughly \$16 billion, almost half of the total outstanding debt.

The biggest Communist borrowers were the USSR and Poland. Because of the sharp rise in their debts, both are encountering some difficulties in raising new bank loans. Nevertheless, they continue to place large orders for Western equipment and grain. Banker confidence in Poland probably has been eroded further by Gierek's handling of the recent difficulties. Romania and Yugoslavia also may encounter difficulty in borrowing in Eurocurrency markets but they are now attempting to control their debts by curbing imports. Bulgaria, despite a gigantic 65% debt service ratio, seems to be obtaining Western bank credits without great difficulty.

\* The USSR, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania, and Yugoslavia.

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European Communist Countries: Estimated Hard Currency Trade and Debt and Debt Service  
(Billion US\$)

|                | Indebtedness<br>at Year End |              | Current Account<br>Deficit | Exports      | Debt Service<br>Payments | Debt Service<br>Ratio <sup>1</sup> / <sub>(percent)</sub> |
|----------------|-----------------------------|--------------|----------------------------|--------------|--------------------------|---|
|                | 1970                        | 1975         | 1975                       | 1975         | 1975                     |   |
| USSR           | <u>2.00</u>                 | <u>10.00</u> | <u>5.20</u>                | <u>7.80</u>  | <u>1.75</u>              | <u>22</u>   |
| Eastern Europe | <u>4.63</u>                 | <u>18.99</u> | <u>5.83</u>                | <u>10.89</u> | <u>3.67</u>              | <u>34</u>   |
| Poland         | 0.77                        | 6.87         | 2.93                       | 3.06         | 1.31                     | 43  |
| East Germany   | 0.99                        | 3.77         | 0.97                       | 2.65         | 0.65                     | 24  |
| Romania        | 1.23                        | 2.97         | 0.38                       | 1.95         | 0.74                     | 38  |
| Hungary        | 0.60                        | 2.10         | 0.58                       | 1.10         | 0.35                     | 32  |
| Bulgaria       | 0.70                        | 1.83         | 0.64                       | 0.40         | 0.26                     | 65  |
| Czechoslovakia | 0.34                        | 1.45         | 0.33                       | 1.73         | 0.36                     | 21  |
| Yugoslavia     | <u>2.14</u>                 | <u>5.60</u>  | <u>0.96</u>                | <u>2.56</u>  | <u>1.14</u>              | <u>45</u>   |

1. Repayments of principal and interest as a percent of hard currency exports.

Maurice Ernst says there is no significant difference between Treasury figures and CIA's on this question.

NOT necessary

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